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AUTHOR	Brown, Pamela J.; Muske, Glenn
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ABSTRACT

In the face of changing agriculture, an aging population, and the outflow of citizens seeking livable wages, rural Southern communities are challenged with how to enhance their economies to insure long-term business viability. Home-based businesses are an effective aspect of rural economic development. They allow flexibility and choice of work style while enabling families to remain in their community, and communities benefit by obtaining supplies and services that would otherwise not be available and because home-based businesses generate and spend money locally. However, home-based businesses need community support to make a marked difference in their community's social and economic well-being. Communities can facilitate the development and growth of home-based businesses by providing education and exposure to knowledge and skills that will enhance entrepreneurial ideas; building strong collaborations between state and private agencies and organizations, colleges, vocational-technical schools, and microlenders that are interested in strengthening businesses; increasing home-based business visibility and community involvement; facilitating networking of home-based businesses to other businesses in the community; increasing home-based businesses' access to financing; and developing local entrepreneurial leadership. (Contains 29 references.) (TD)

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Home-Based Businesses:

Implication for the Rural Economy of the South

The Rural South: Preparing for the Challenges of the 21st Century, No. 16

by

Pamela J. Brown and Glenn Muske

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THE RURAL SOUTH: Preparing for the Challenges of the 21st CENTURY

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Home-based businesses: Implications for the rural economy of the South

Rural citizens state, "Our youth are leaving; agriculture isn't what it used to be; we have fewer businesses at which to shop; and people have less time for each other." The question on their minds is, "How can we get our community back?" This sense of frustration by rural citizens of "how life used to be," done by simple observation of the aging population, the closure of longtime businesses on Main Street, the outflow of people seeking livable wages, and the changing agricultural sector, is supported by a variety of statistics. In the eyes of many, all of these reasons add up to little expectation for the long-term viability of our rural communities.

This view, however, misses the rural community's potential for change and growth through a variety of means including entrepreneurial innovation. This brief explores the issues related to Southern rural business viability in the 21st century, particularly through self-employment in home-based business. Several questions are addressed including why do home-based businesses offer positive, long- term economic possibilities for the rural South? What opportunities are available? What can these businesses offer the individual, the family and the rural community? What support systems are necessary to help the rural home-based business succeed? Can home-based entrepreneurship offer youth a chance for homegrown success?

An Introduction to Home-based Businesses

Home-based businesses are not new; they represent the earliest business form. Consider the tailor, farrier, the funeral parlor, they were all located in the home. Home-based business owners focus on the same business motives that Fortune 500 companies do: production, sales, service, personnel, marketing and profit. What makes home-based businesses unique is their location, working from one's home or on that property. *What makes them a tremendous opportunity for the rural*

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South is the ability to offer practically any product or service with reduced initial capital needs and on-going overhead. Such businesses can meet local or global needs while fitting into the owner's desired lifestyle. Home-based businesses can take advantage of a person's human capital, in terms of entrepreneurial interests and abilities [7]. They offer rural communities potential to identify and develop local assets, allowing residents to remain in the community.

> **"In Southern rural counties, three key ingredients are important in an economic development strategy: individual entrepreneurial spirit, local initiative and quality of life."**

The Rural Area and Economic Development

During the 1990s, 40 percent of rural areas grew and are expected to continue to grow [1, 7]. Typically, non-metropolitan counties located next to metropolitan areas have grown faster than those farther than 25 miles from metro areas. The South contains four of the fastest growing rural counties, with populations of at least 10,000, in northern Georgia and Virginia [a, 15]. Growth of these rural areas is attributed to several factors: a more educated population, motivated businesses, becoming an economic hub, less dependence on public assistance, access to passenger airports and interstate highways, greater concentrations of service-related businesses, or some form of scenic amenity.

While rural economic growth is quite widespread, some areas still struggle to survive. Rural farm communities, dependent on agriculture and ag-related businesses, are at the greatest risk for further losses. Farms are becoming larger, using more sophisticated means to farm more acres. This translates into fewer workers needed. Also, corporations are vertically integrating from production through marketing and sales, which has a negative impact on the local economy. Less agriculturally dependent rural communities may actually fare somewhat better [26], though reliance on one major industry such as forestry, mining, oil and gas, railroads or heavy construction is also at risk [1]. Struggling rural counties are often characterized by higher percentages of minority populations, lower wage levels and the presence of at least 80 percent small businesses (with fewer than 20 employees) that are independently owned and goods-producing.

Home-based Businesses as Rural Economic Development

In Southern rural counties, three key ingredients are important in an economic development strategy. First and foremost is individual entrepreneurial spirit. This is represented by tremendous human and social capital potential and is comprised of those who are willing to risk business start-up over time. A second important element is local initiative or the drive of a community to adapt, adopt and embrace change. The third is quality of life that defines why people want to remain in or move to rural areas.

When communities address business recruitment, business retention and encourage entrepreneurial start-ups, they usually think in terms of "traditional" businesses, those with a storefront or other commercial location. Typically, economic development efforts try recruiting a major employer. However, the odds of successful recruitment are slim, resulting in one successful business relocation for every 10 to 800 serious contacts [20, 21].

Effective economic development efforts must include a broader range of possible solutions. First, the community must retain existing

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businesses. Second, they must expand what exists. Existing businesses are a significant asset to the community, creating the majority of new jobs [11]. Third, they must encourage entrepreneurial growth.

Home-based businesses fall into all three categories. Yet they are overlooked in community development efforts because of their invisibility, independence and credibility deficit. They are often perceived as menial businesses without vision or purpose. But, what would communities be like without the auto mechanic, handyman, day-care provider, lawn care service or web page developer? These home-based businesses fit so seamlessly into the community that they simply are not noticed for what they are, functional and contributing micro businesses.

In a random survey of households in nine states, 9.6 percent of all households were found to have at least one member who was generating income from home, excluding production agriculture [10]. This implies that a community of 3,000 people may have as many as 100 home-based businesses in operation. In 1995, *Link Resources* estimated that as many as 27.1 million home-based businesses exist [4]. The U. S. Census Bureau reports that one-half of the 17 million small businesses surveyed in the 1992 Business Census are home-based [9].

The Issues

- The nostalgia of Main Street and "how life used to be" in Southern rural towns and communities is increasingly becoming a myth because of an aging community, changing agriculture and the outflow of citizens seeking livable wages.
- Rural communities are challenged with the question of how to enhance business and economy in order to insure long-term viability.

The Benefits of Home-based Businesses

- Home-based businesses are a strong and effective measure for economic development in rural communities.
- Home-based businesses allow families to remain in a community rather than leaving to find better livable wages.
- The community benefits by obtaining supplies and services through home-based businesses that would otherwise not be available and because home-based businesses generate and spend money locally.
- The individual benefits from home-based businesses because it allows flexibility and choice of work style while remaining home for the family.

The Community's Contribution

- Communities must provide education and exposure to knowledge and skills that will enhance entrepreneurial ideas.
- Strong collaborations, community involvement and networking among businesses are goals a community must try to facilitate.
- Financial support has to be made more accessible to small businesses.
- Community leadership with a vision for the future is vital when planning for further business development.

Summary

- Home-based businesses can add diversity, create jobs and provide greater economic stability for individuals, families and communities. However, they must be supported by the community in order to make a marked difference in its social and economic well-being.

Many home-based businesses are indeed small with 57 percent earning less than $25,000 gross income annually [4]. Other studies of home-based businesses report average gross incomes ranging from $16,111 [3] to $21,645 [10, 15]. Fifty-eight percent of home-based businesses provide supplementary income either as a part-time primary job or as a part-time secondary job [3]. This allows the household to have expanded purchasing and/or saving potential. Furthermore, it allows farm families to remain in farming by adding value to existing agricultural output and/or resources or to undertake some new enterprise. Beyond expanding family income, home-based businesses are an important asset to communities. Because many operate as part-time businesses, they offer small communities a variety of services and products that could not be economically supported by these communities as full-time establishments. Although small in scale, home-based businesses make a significant contribution to the local economy. Using strict criteria, Heck [10] estimated that home-based businesses generate incomes in excess of $10 billion annually in the South. Other estimates push that number to well over $42 billion.

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Table 1. **Projected Number and Income of Southern Region Home-based Businesses (HBBs)**

State	Rural Population in 1990 (U.S. Census)	Avg # per Household in 1996 (U.S. Census Estimate)	Projected # of Rural Households	Projected # of HBBs @ 9.6%[1]	Projected # of HBBs @ 6.4%[1]	Projected Net Business Earnings @ $17,000 per Business[2]
Alabama	1,601,000	2.56	625,391	60,038	40,025	$680,425,000
Arkansas	1,093,000	2.51	435,458	41,804	27,869	473,778,486
Florida	1,971,000	2.45	804,490	77,231	51,487	875,284,898
Georgia	2,381,000	2.65	898,491	86,255	57,503	977,557,736
Kentucky	1,775,000	2.55	696,078	66,824	44,549	757,333,333
Louisiana	1,348,000	2.67	504,869	48,467	32,312	549,297,378
Mississippi	1,362,000	2.66	512,030	49,155	32,770	557,088,722
North Carolina	3,291,000	2.53	1,300,791	124,876	83,251	1,415,260,079
Oklahoma	1,015,000	2.50	406,000	38,976	25,984	441,728,000
South Carolina	1,581,000	2.64	598,864	57,491	38,327	651,563,636
Tennessee	1,907,000	2.52	756,746	72,648	48,432	823,339,683
Texas	3,352,000	2.69	1,246,097	119,625	79,750	1,355,753,160
Virginia	1,894,000	2.61	725,670	69,664	46,443	789,529,502
Total	——	——	9,510,974	913,053	608,702	$10,347,939,613

[1] Percent of home-based businesses noted in Heck, R., Rowe, B., & Owen, A. (1995)
[2] Average income of SRDC 4-state study in 1997 was $16,111. The figure, $17,000, is adjusted for inflation. It is then multiplied times the number of estimated home-based businesses when the most conservative number, 6.4%, is used.

Many home-based businesses purchase supplies and services locally. The Kentucky, Mississippi, Oklahoma and Virginia study found that 38 percent of home-based businesses purchased supplies locally and 47 percent acquired services locally [3]. Forty-two percent of home-based businesses made local sales. This means one dollar spent locally goes through several other local businesses and generates amounts greater than one dollar in local economic activity.

Home-based businesses are sometimes viewed as lacking validity because of the perception that they operate outside mainstream business and function largely as a part of the informal economy. While later comments will show that the number of registered home-based businesses is significant, the community must realize that the informal economy [b] accounts for significant unreported income, most commonly in the form of services such as housework, unlicensed child care, food service or repairs. The informal economy continues to grow due to the increase of small service businesses and illegal immigrant population growth [24].

In summary, home-based businesses provide many non-tangible benefits to the individual and the local community. For the individual, they allow flexibility and choice of work style while remaining home for family needs [19, 23]. Home-based businesses offer the entrepreneur a chance to try some new interest while limiting risk with reduced overhead and starting only on a "moonlighting" basis. To a community, they provide services and products that would otherwise not be available thus allowing the community to benefit from the diversity of the business mix [14].

Home-based businesses allow families to remain living in an area, which is something wanted by the individual, the family and the community [c]. Business success, regardless the size of the business, breeds other community successes, and the community becomes more competitive in fostering other new business start-ups [10, 19] and attracting new businesses [1].

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Implications for 21st Century Rural Home-Based Businesses

The importance of home-based businesses in a diversified economy is well documented. Will home-based businesses continue to remain a significant economic segment or have they reached a peak as Klein [13] and Allen and Moorman [2] suggest? Allen and Moorman write, ". . . many (home-based business owners) have found that the reality doesn't live up to the promise. The dawn of the 21st century is bringing yet another shift in the ongoing quest for the ideal work situation" (p. 57). They suggest that many home-based business owners are corporate refugees, temporarily displaced, but eventually, particularly in the case of women, return to the traditional work situation.

People are choosing to be home-based entrepreneurs; they want to be their own boss; they choose lifestyle and family. It is not simply a holding pattern until something better comes along. In a two-year period, 9.4 million Americans were displaced and one-in-five (1.9 million) became self-employed for a period of time [2]. From 1980 to 1990, the number of home-based business workers, based on Census data, increased by 56 percent [29] and continues to increase.

A global economy and rapidly developing technology make such continued growth possible. As the economy changes from an industrial base to an information and service economy, being home-based is easier to achieve. Communication technologies allow the home-based owner to do anything that a traditional business can do [22, 28]. Increasing numbers of Internet service providers enable the most rural home-based business to enter the global market place. Electronic commerce holds great potential as an equalizer for rural businesses to remain competitive. Yet as this is said, one must also realize the digital divide limits the speed of Internet transmissions in many rural areas.

Statistics also confirm home-based business growth. Only two states, Oklahoma and Virginia, saw a decrease in the number of annual home-based business registrations from 1997 to 1999 (see Table 2). As a percentage of all business registrations, home-based business registrations in 1999 in the South ranged from a low of 51 percent in Mississippi to a high of 61 percent in Georgia. *Entrepreneur Magazine* [8] predicts, "If the unprecedented growth continues as expected, most Americans will work at home in the 21st century."

Table 2. **New Business Registration in the Southern States, 1997-1999**

State	Total New Business Registrations (HBBs & Commercial Sites)				Total HBB Registrations			% Change in HBBs 1997-1999
	1997	% HBBs	1999	% HBRs	1997	1999	Difference	
Alabama	3,064	54%	4,965	52%	1,653	2,567	914	55%
Arkansas	5,799	44%	7,658	54%	2,574	4,133	1,559	61%
Florida	79,533	52%	147,813	58%	41,462	85,187	43,825	106%
Georgia	22,586	60%	38,594	61%	13,634	23,419	9,785	72%
Kentucky	8,219	53%	13,272	53%	4,320	7,030	2,710	63%
Louisiana	13,738	46%	17,312	54%	6,294	9,333	3,039	48%
Mississippi	3,686	48%	6,153	51%	1,780	3,159	1,379	78%
North Carolina	25,518	57%	34,009	58%	14,443	19,658	5,215	36%
Oklahoma	16,305	47%	13,596	52%	7,726	7,036	-690	-9%
South Carolina	8,654	51%	18,401	53%	4,372	9,800	5,428	124%
Tennessee	21,912	52%	26,720	54%	11,376	14,566	3,190	28%
Texas	167,590	51%	208,947	56%	85,523	117,172	31,649	37%
Virginia	28,503	56%	25,173	60%	16,047	15,048	-999	-6%
TOTAL	405,107	——	414,800	——	182,485	318,108	135,623	——

Source: New Business USA, Omaha, NE (March, 2000).

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Facilitating Home-Based Business Development and Growth

The rural South can create economic impact by supporting the development and growth of home-based businesses. The time and resources spent will impact the future of communities, families and individuals. The development of entrepreneurs requires two elements: individuals who desire to own his or her own business and a supportive business environment. Five key strategies will play a role in facilitating the development and growth of economically viable and contributing home-based businesses.

Support for and exposure to entrepreneurial education.

This includes learning new skills, updating existing skills for new and growing businesses and providing visible avenues for learning to citizens. Often fledgling business owners do not know about the varieties of education available to them (e.g., Small Business Development Center seminars, Extension education, etc.) [6]. One such program is Cooperative Extension's *Ca$hing in on Business Opportunities*, a curriculum designed by the National Home-Based and Micro Business Design Team [d]. Additionally, many other such curricula exist to support this need.

> "Just because people risk starting a business does not mean they have the management skills to make the business successful."

Technical assistance is education that addresses business management practices. Weinberg and Vaughn [27] suggest that short-term technical assistance (12-week educational programs), long-term mentoring and access to capital are crucial for the success of crafters, manual labor services and direct consumer services. Typically this might include financial record keeping, pricing, market research, taxes or business plan development. Just because people risk starting a business does not mean they have the management skills to make the business successful. While one's nature and nurturing can make a person more accepting of such risk, education can help people understand the risks involved and what is necessary for successful business development.

Youth represent the future of entrepreneurial opportunity. Communities should encourage entrepreneurial youth education programs, in school and after-school, that present opportunities for both youth and business to interact, experience and learn. Strong businesses have a better survival rate than weak, poorly planned businesses. Businesses, like families, need a nurturing business and community environment. One cannot exist without the other.

Build strong collaborations.

Many agencies and organizations, such as Small Business Administration, Small Business Development Centers, Cooperative Extension, S.C.O.R.E. (Service Corps of Retired Executives), two- and four-year colleges and universities, vocational-technical schools, microlenders, and state and federal agencies such as commerce and tax departments are interested in creating and strengthening businesses. Oftentimes agencies, community leaders and business owners are successful as independent operators, but the goals of each may conflict due to competition. Collective visioning through nominal group processes and other collaboration-building techniques can identify and build on community assets, creating common goals and methods to

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reach these goals. True collaboration results in a bond among groups to strive for change, growth and creation of businesses that enhance communities.

Develop strategies to increase home-based business visibility and community involvement.

Build avenues for home-based and other businesses to succeed. Business incubator space can provide a boost for start-up and expansion of business operations. Light manufacturers would benefit from low-cost commercial space found in incubators. Professional service entrepreneurs would benefit from the infrastructure and skilled labor pool of an incubator. Qualified human capital is a must. The community can provide marketing information, encourage mainstream business to utilize home-based business products and services, and organize associations or promote Chamber membership by the smallest of businesses.

Facilitate networking of home-based businesses to other businesses in the community, region, state and beyond.

Infrastructure supports business development. High-speed telecommunication lines are a necessity to support expanding e-commerce in the 21st century. Home-based businesses depend on computer technology and the ease of communication it provides. Businesses obtain information from the Internet, communicate with other businesses, and conduct actual transactions. The local banking community should embrace the concept and operations necessary to support home-based electronic retail trade. If the rural South is to compete, its home-based businesses, as well as other commercial-site businesses, must have reliable, fast access to the Internet. Currently, fewer than 10 percent of rural communities, with a population of less than 25,000, have broad band (high-speed data communication) capability [25]. Without this, rural communities will remain isolated from resources and opportunities that can help them remain viable.

"If the rural South is to compete, its home-based businesses, as well as other commercial-site businesses, must have reliable, fast access to the Internet."

Increase financial accessibility and make it less difficult for the smallest of businesses to obtain financing.

Financing is always an important business issue. Although home-based business owners have proven themselves resourceful in finding start-up funding, ready access to capital may be a significant stumbling block. Microlending organizations, offering very small loans from $300 to $25,000, make it possible for those without a good credit history to obtain financing not available elsewhere [18, 5]. Lack of financing can hinder development of even the smallest businesses.

Develop entrepreneurial leadership.

Proactive leadership that works for a common vision and avoids dismissing one segment of the community in support of another requires entrepreneurial thinking. Weinberg [25] suggests that well organized communities are those that think entrepreneurially and have a vision not just for business growth and development but social good as well. Community leaders must take a lead role developing a business policy

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that is supportive of a broad-base of businesses. Once it is written, the local leadership must then understand it and use it for maximum advantage of all businesses. Many city zoning and residential community restrictions impede the start-up and legal operation of home-based businesses. Both the business owner and the community must work together to remove these legal barriers. This requires understanding the contribution of business ownership, including home-based businesses, to the local economy, as well as the risks to both owners and neighbors. Home-based businesses flourish in supportive environments. Local officials also must work at state and federal levels to develop supportive business policies.

Although Drabenstott [7] wrote, "Helping all of rural America unlock its economic potential will be a tall order for public policy," these issues are crucial elements of economic development programs. There is entrepreneurial potential lurking in the homes of many of the rural South's communities. These individuals are looking for the chance to improve their standard of living, learn new skills, or make a career change. Given the opportunity, the education and even minimal financing, rural citizens can remain rural and still make a difference to their community's social and economic well-being.

"Given the opportunity, the education and even minimal financing, rural citizens can remain rural and still make a difference to their community's social and economic well-being."

Summary

A paraphrase of a W.C. Fields' quote might read, "The reports of the death of the rural area are very much exaggerated." It does, however, face significant challenges as we enter the 21st century. One of those challenges is community economic development.

Home-based entrepreneurship represents one important part of a multifaceted development strategy. As with any entrepreneurial effort, home-based businesses generate jobs and income and are a sparkplug for economic growth. Community leaders are challenged to recognize the diversity of businesses that exist and are needed in a community. Every community has individuals who want to be their own boss. By recognizing entrepreneurial spirit, communities can influence educational programs, business recruitment efforts and community support. This includes technical assistance, mentoring and development of resources such as financing, telecommunications, marketing programs, and fair regulations. Communities must locate home-based businesses and work to integrate them more fully into community programs and activities.

Home-based businesses are opportunities for the individual and the community. They add diversity, create jobs, and provide greater economic stability for individuals, families, and the community. Adding home-based business development into the community's economic development plan **makes good business!**

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Endnotes:

[a] Growth rates for the four counties are Forsyth, GA - 9.5 percent, Paulding, GA - 7.7 percent, Loudoun, VA - 7.7 percent and Henry, GA - 7.5 percent [17].

[b] The underground or informal economy is defined as all production that is not accounted for in the Gross Domestic Product [12]. Estimates vary, but a widely accepted percentage estimate is 20% of the GDP or one-tenth of the economy [16].

[c] Data from the nine-state study indicate that longevity of the business is related to longevity of homeownership-an average of nine years [10].

[d] For more information or to purchase a copy of *Ca$hing in on Business Opportunities*, contact the Southern Rural Development Center at 662-325-3207 or mgreen@srdc.msstate.edu.

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The Rural South: Preparing for the Challenges of the 21st Century series began this year as an effort to highlight certain issues that remain persistent parts of the fabric of the rural South such as education, tourism development, sustainable agriculture, urban sprawl, e-commerce, and rural healthcare. Upcoming reports in the series will include:

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Pamela J. Brown is an assistant professor and Extension Consumer Sciences Specialist with the Texas Agricultural Extension Service at Texas A&M University. Glenn Muske is a Home-based and Micro Business Specialist at Oklahoma State University. For more information on this topic contact Brown at p-brown@tamu.edu or Muske at muske@okstate.edu.

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